March 23, 2001

MEMORANDUM FOR SANDRA N. BATES
COMMISSIONER
FEDERAL TECHNOLOGY SERVICE (T)

FROM: DAVID K. STONE
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION (JA-5)

SUBJECT: Review of Center for Information
Security Services, Federal Technology Service
Report Number A001031/T/5/Z01003

This report presents the results of our review of the Center for Information Security Services. A draft of the report was submitted to you for your comments. The comments were considered in preparing the final report and are included in their entirety as an appendix. We wish to express our appreciation to the officials and other employees of the Center for Information Security Services for their cooperation and courtesies extended during the review.

Section 810, Prompt Resolution of Audit Recommendations, of the National Defense Authorization Act (Public Law 104-106), effective February 10, 1996 directs that management decisions are required within six months of the audit report issue date. Nevertheless, as required by GSA Order ADM P 2030.2B, a time-phased plan of action addressing the report recommendations and the Management Decision Record for Internal Audit (MDR) should still be submitted within 60 days. Section B of the MDR should be completed. Please submit the complete package to the Assistant Inspector General for Auditing (JA), with a copy to the Audit Followup and Evaluation Branch (BECA).

Final actions on all management decisions must be completed within 12 months of the audit report issuance date; otherwise the OIG will be required to report in its Semiannual Reports To Congress matters on which final actions remain open 12 months after the report issue date. Therefore, upon completion of negotiations, send a copy of the negotiation memorandum to the Regional Inspector General for Auditing (JA-5) in accordance with GSA Order ADM P 2030.2B.

Attached is a Customer Satisfaction Questionnaire, developed to obtain feedback regarding whether the report and related audit services meet customer expectations. We request that the primary user of this report complete the questionnaire and return it in the enclosed envelope to:

Treva Crawford
Director, Operation Staff (JAO)
General Services Administration
Office of Inspector General
18th and F Streets, NW. Room 5316
Washington, DC 20405

If you have any questions, please contact Franklin Moy or me on (312) 353-7781, extensions 112 and 110, respectively.

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003
MARCH 23, 2001

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

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DATE: March 23, 2001

REPLY TO
ATTN. OF: Regional Inspector General for Auditing, Great Lakes Region (JA-5)

SUBJECT: Review of Center for Information Security Services
Federal Technology Service
Report Number A001031/T/5/Z01003

To: Sandra N. Bates, Commissioner
Federal Technology Service (T)

This report presents the results of the Office of Inspector General's review of the Center for Information Security Services (CISS).

CISS, formerly known as the Office of Information Security, provides support services to federal agencies with national security defense, diplomatic, and communications missions.

This review was conducted as part of the Office of Inspector General's annual audit plan. Our specific audit objectives were to answer the following questions: Is CISS effectively managing and properly using customer funds? If not, what is the effect on customer funds? If the effect is significant, what can be done to improve the order management process?

CISS provided goods and services to its customers without always obtaining adequate funding. CISS overspent 280 customer orders by $6.4 million since fiscal year 1993. Additionally, CISS has many customer orders with excess funds that are unused and apparently unneeded. We determined that excess funds, some from orders dating as far back as 1993, are valued at about $7.9 million. Lastly, CISS did not always ensure that transfers of funds were between orders having a similar purpose and scope.

We believe these problems have occurred because CISS, due to a fragmented organizational structure, has not developed policies and procedures that reflect its current operating needs.

We have included your written response to the draft report as an appendix to this report.

FRANKLIN M. MOY
Audit Manager
Great Lakes Region (JA-5)

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

INTRODUCTION

BACKGROUND

The Center for Information Security Services (CISS), formerly known as the Office of Information Security prior to October 1, 2000, provides support services to federal agencies with national security defense, diplomatic, and communications missions. In addition, CISS develops Government policy on information security matters. CISS officials have often served as Government-wide executives charged with assuring that Federal agencies' information security programs are in line with Government policies.

Historically, the repair and maintenance of secured communications equipment has been a core part of CISS' business. However, over the years, the organization evolved into a provider of higher-level systems, including state of the art, multi-agency, international secured communication services. During the 1990s, CISS became an international organization of over 400 employees, with field offices located in Europe and the Pacific Rim.

CISS provides information security services to requesting agencies on a reimbursable basis. CISS classifies its information security workload into three distinct service areas. These areas are 1) individual time and materials work, 2) recurring monthly maintenance and repair work, and 3) contracting services for a fixed fee. Contracting services can involve both the acquisition and installation of equipment. By 1999, contracting work had become the staple of CISS' operations, accounting for up to 45 percent of its work.

CISS, until recently, operated on an advance bill basis, with the requesting agency obligating and disbursing funds prior to the start of work. CISS personnel advised us during our review that they had changed to standard billing. Under standard billing, the requesting agency disburses funds as work is completed.

CISS, although staffed with capable people, encountered difficulty responding to the tremendous pace of change in the information security arena. Our review found that CISS employees simply were not provided the tools to properly manage their accounts. In recent years, CISS was plagued by substantial losses, amounting to 10 to 20 percent of service revenues. In response to the losses, the Federal Technology Service (FTS) reorganized CISS effective October 1, 2000. Most CISS field offices are now under the control of the region in which they are physically located. International operations are now managed by other FTS business lines. The remaining main CISS activity is the core information security services group, which is the subject of this audit report.

OBJECTIVES, SCOPE AND METHODOLOGY

This review was conducted as part of the Office of Inspector General's annual audit plan. Our specific audit objectives were to answer the following questions:

1. Is CISS effectively managing and properly using customer funds?

2. If not, what is the effect on customer funds?

3. If the effect is significant, what can be done to improve the order management process?

To accomplish our objective, we:

- Performed a computer analysis of the entire database of CISS' customer orders, which dates back to 1993, determining obligated amount, billed amount, accrued amount, and the dollar balance for each of over 2,000 open orders;

- Used the computer analysis to construct a comprehensive evaluation of CISS' income accruals totaling over $18 million;

- Reviewed 77 customer orders, dating from fiscal year 1993 through fiscal year 2000, and related accounting and financial records as necessary;

- Interviewed CISS personnel regarding order processing and billing procedures, and the procedures for handling and controlling customer obligations;

- Visited two field offices and interviewed six field technicians regarding changes within the organization and in the nature of CISS' work;

- Discussed the accounting entries for CISS' customer orders with officials from GSA's Greater Southwest Finance Center, especially the areas of income accruals and advance billings; and

- Discussed FTS financial management policy with GSA's Office of the Chief Financial Officer and GSA's Office of General Counsel.

We did our onsite review from June through November of 2000. The audit was performed in accordance with generally accepted Government auditing standards.

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
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RESULTS OF REVIEW

BRIEF

CISS provided goods and services to its customers without always obtaining adequate funding. As a result, CISS overspent 280 customer orders by $6.4 million since fiscal year 1993. CISS has paid expenses for these orders using reserves from the Information Technology Fund (IT Fund), consequently reducing the cash levels of the IT Fund. This situation has hindered FTS' efforts to increase the balance of the IT Fund.

CISS has not obtained additional funds for many of these overspent orders. CISS' accounting practices have postponed the need for taking action on overspent orders, thereby increasing the likelihood that many of these orders are uncollectable. This situation has resulted in potentially inaccurate financial reports including, in particular, overstatements of prior years' income for CISS operations.

CISS has many customer orders with excess funds that are unused and apparently unneeded. We determined that excess funds, some from orders dating as far back as 1993, are valued at about $7.9 million. CISS has no written procedures for the disposition of these excess funds, and many of these balances appear to have been forgotten.

Additionally, CISS regularly transfers funds between orders without always ensuring that they have a similar purpose and scope. Therefore, CISS may not be fulfilling its fiduciary responsibility to properly manage customer funds.

We believe these problems have occurred because CISS, due to a fragmented organizational structure, has not developed policies and procedures that reflect its current operating needs. CISS' primary type of work has changed dramatically in recent years from recurring maintenance and repair agreements to contracting services. However, the organization has relied on the same basic policies and procedures for managing customer orders as it did in the past. Contracting services, which now represent about 85 percent of CISS' gross revenue, often involve large sums of funds and cross fiscal years. For example, contracting services accounted for $116,856,500 of CISS' gross revenue for fiscal year 1999; about $100,000,000 of this amount represented flow-through costs. Because of the increased financial risks they present, these orders require a much more rigorous order management system than the one CISS' had developed to support its traditional recurring maintenance and repair work.

We previously issued a report, dated November 29, 2000, alerting FTS management to the findings described in this report. This report, however, describes those findings in a more comprehensive manner.

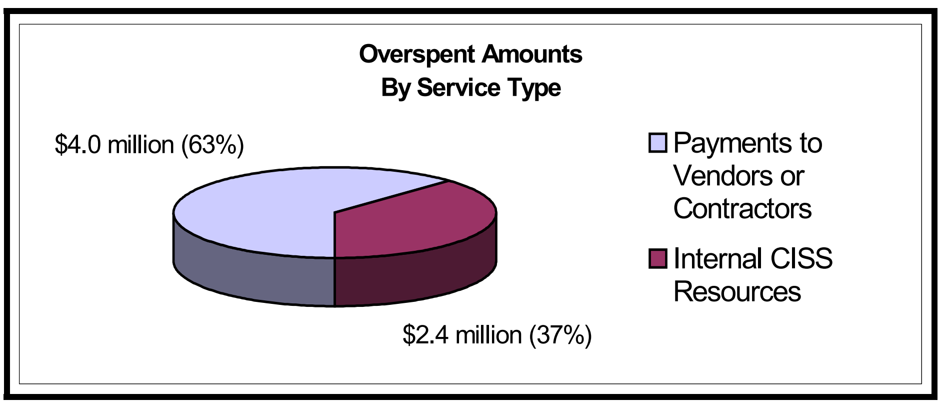
FINDINGS AND RECOMMENDATIONS

FINDING 1 – OVERSPENT CUSTOMER ORDERS DEPLETE THE IT FUND

Our review showed that CISS overspent 280 orders by a total of over $6.4 million as of November 9, 2000. CISS has consistently overspent orders since 1993[1]. In fact, our analysis shows that CISS overspent at least 59 orders by a total of about $423,030 in calendar year 2000 alone.

CISS' over-expenditures deplete the IT Fund. CISS is funded on a reimbursable basis using the IT Fund. When CISS provides services to customers in excess of available customer funds, CISS pays the cost overruns out of the IT Fund.

Furthermore, a substantial portion of CISS' expenditures for overspent orders represented direct payments to vendors or contractors as shown in the chart below. Unlike the fixed costs associated with using CISS' internal resources, the variable cost of contracting services poses an unlimited financial risk to CISS. By providing contracting services in excess of available customer funds, CISS is essentially buying some services for the customer agency for free! The potential for financial loss is unlimited as long as CISS continues to provide contracting services without recovering the flow-through costs.



For example, three Navy orders from 1997 and 1998 (customer order numbers 97002043, 98002043, 97002158) illustrate the impact of overspending orders for contracting services. These orders collectively represent payments to contractors totaling $392,064 more than available customer funds. From 1997 to February of 1999, CISS purchased $5,052,874 of computer equipment from outside vendors for this customer. As of November 2000, the customer's funding totaled only $4,660,810. CISS paid the shortfall of $392,064 using IT Fund reserves.

[1] Due to the limitations of CISS' customer order database, our data includes only open orders dating back to fiscal year 1993 as of November 9, 2000.

Expenses in excess of available customer funds such as those mentioned above impose a considerable financial strain on the IT Fund. FTS has had consistent problems, dating back to 1997, maintaining the balance of the fund. In fact, FTS has relied on transfers from PBS in recent years to maintain the balance of the IT Fund. CISS' overspending practices have contributed to the declining balance of the fund and have made effectively managing the fund more difficult.

All components of GSA are subject to GSA Order ADM 4200.2A, Administrative Control of Funds. This order states that the reimbursable effort is constantly monitored to make sure that expenditures do not exceed the amounts allowed. The order also states that an obligation for reimbursable work is not made, or work started until a firm written agreement is executed between the performing GSA organization and the requesting Federal agency. Our review noted that sometimes CISS would provide services without receiving the requesting agency's purchase order. In doing so, and in overspending orders, CISS has not adhered to this order.

Our on-site review found that CISS employees regularly transferred funds from one order to another order to offset overspent amounts. However, our analysis of Federal financial management regulations (appropriations law) indicated that any transfer of funds from one order to another without a consideration of the *bona fide* needs rule is inappropriate. See FINDING 3 – TRANSFERRING FUNDS BETWEEN ORDERS for a discussion of this issue.

Effect of Income Accruals on Financial Statements

CISS' accounting practices decreased the likelihood that overspent orders would be collected, resulting in an overstatement of income. Additionally, these practices resulted in a misstatement of CISS' financial position by overstating asset and liability accounts.

CISS' billing system treated the overspent amount as an unbilled income accrual. In other words, an unbilled income accrual is an accounting entry recognizing income before actual receipt of payment. In general, accrual entries are automatically reversed at the beginning of the next month in order to prevent a duplication of income when payment is received. However, CISS accrued, reversed, and then re-accrued overspent amounts with the assumption that CISS would bill the customer at some point in the future and at that time would recognize the overspent amount as earned income. The table below shows examples of accruals that were repeated in fiscal years 1998, 1999, and 2000:

Examples of Accruals Repeated in 1998, 1999, 2000

Order #	Year Created[1]	1998 Accrual	1999 Accrual	2000 Accrual
93000209	1993	$ 38,984	$ 38,984	$ 38,984
94000748	1994	$ 136,122	$ 136,122	$ 136,122
96001482	1996	$ 580,237	$ 580,237	$ 580,237
96001825	1996	$ 545,644	$ 545,644	$ 545,644
96001462	1996	$ 231,167	$ 176,333	$ 176,333
96001488	1996	$ 85,485	$ 85,485	$ 85,485
96001471	1996	$ 34,317	$ 34,317	$ 34,317
96000779	1996	$ 29,704	$ 29,704	$ 29,704
96000937	1996	$ 25,328	$ 25,328	$ 25,328
96000356	1996	$ 21,517	$ 21,517	$ 21,517
96001492	1996	$ 21,501	$ 21,501	$ 21,500
96000961	1996	$ 15,872	$ 15,872	$ 15,872
Total				**$ 1,711,043**

[1] Our test was for the years indicated. These accruals could have begun in the year the order was created.

CISS did not always obtain additional funding for overspent orders nor did management define a point at which overspent amounts were declared uncollectable. Thus, unbilled income could stay on the books indefinitely while CISS waited to receive additional funds. The longer CISS waited to contact the customer regarding additional funds, the less likely it became that those funds could be collected. By not obtaining additional funds and by repeatedly accruing these overspent amounts, CISS has overstated its income in previous years.

Our analysis of accruals posted in November of 2000 indicated that uncollectable amounts could total at least $1.4 million. For the purposes of our analysis, we defined orders with a date of last service prior to calendar year 1999 uncollectable. CISS had 93 orders with unbilled overspent amounts totaling $1.4 million. See Appendix A for some examples of these and other overspent orders. These unbilled amounts appear to be well past the point of being collectable. CISS can not continue to accrue these amounts as income and should declare them uncollectable or, if possible, collect additional funds from customers to cover these overspent amounts.

Impact on Financial Position

Overspending has caused a misrepresentation of CISS' accounts and has affected FTS's ability to accurately project future expenditures out of the IT Fund. In addition to recording overspent amounts as accrued income, CISS has recorded available customer funds as accrued income as well. If a charge for services is only partially unfunded, CISS' billing system creates an income accrual entry for the entire charge. For example, as of November 2000, customer order number 96001825 for the Securities and Exchange Commission (SEC) had $534,929 available. In April 1997, services totaling $545,644 were charged against this order. Since the system could not apply a partial charge to an order, the whole charge was treated as an unbilled income accrual. However, the amount overspent was only $10,715. The available customer funds ($534,929) should have been posted to earned income. Otherwise, CISS' deferred income account is overstated.

Inappropriate income accruals, such as the one described above, cause inaccuracies in CISS's financial statements and reports. For example, when GSA received payment from the SEC for the order described above, the $534,929 was recorded as a debit to cash and a credit to deferred income. When the $545,644 charge was applied to the order, CISS recorded the entire amount as a debit to unbilled receivables and a credit to accrued income.

Under CISS' incorrect entries, the amount of available funds ($534,929) from SEC was recorded twice on GSA's books: once as a debit to cash with a credit to deferred income, and again as debit to unbilled receivables with a credit to accrued income. Under the correct entries, the available funds would have been posted to earned income (with a commensurate reduction in deferred income) and only the overspent amount would have been treated as accrued income (with a commensurate increase to unbilled receivables).

Overall, of the approximate $13.3 million of accruals that represented overspending as of November 9, 2000, about $6.5 million represented available customer funds. Amounts totaling about $6.5 million were entered into the deferred income account and were never credited out even after CISS had performed services for the customer. Likewise, these amounts were inappropriately recorded as unbilled receivables. These entries result in an overstatement of GSA's liabilities and accounts receivable.

In addition to the overstatements of assets and liabilities, CISS' Customer Unfilled Orders Report has been overstated as well. This report is used to estimate CISS' future expenditures and to determine CISS' authority to incur obligations. By misrepresenting their financial position and overstating their amount of unfilled customer orders, CISS had increased the difficulty of effectively managing the IT Fund.

Causes of Overspending

We believe CISS' overspent order problem has been caused by a combination of factors as follows:

CISS had a fragmented organizational culture. CISS had a fragmented organization and had not developed a strong culture for coordination and communication between departments. Employees from several different departments were involved in order management and had little need to closely coordinate their work. Historically, most agreements were for recurring maintenance and repair services, which meant that CISS' fees remained constant regardless of the amount of work CISS did. A technician provided services at the customer's request, an account executive communicated with the customer regarding service agreements and terms, a financial manager processed the financial documentation, and the need for frequent communication between the departments was relatively minor.

The following example demonstrates how CISS' fragmented organization and lack of communication led to mistakes of great magnitude. Air Force order number 98001961 had an available balance of over $970,000 as of August 2000. Charges for this order totaling about $921,000 were mistakenly applied to order number 98001294 which was created in fiscal year 1998 for the Justice Department. This resulted in the Justice Department order appearing overspent by almost $800,000. Assuming that the Justice Department order had simply been overspent, the project manager responded to the negative balance by transferring about $526,000 to the order from order number 99001961 created in fiscal year 1999 for the same customer. By transferring funds from one order to the other without ensuring that the services were the same or that the customer was the same, Justice Department funds were used to cover an Air Force order.

CISS employees did not have easy access to up-to-date order information. As CISS began providing contracting services, technicians could incur expenses without the project manager's knowledge. Where a well-designed and easily accessible order management system might have solved this problem, CISS' databases resembled the old CISS for which they were created; they were fragmented and obsolete.

An improved order management system could prevent CISS from being liable for their customer's expenses. Customer order number 97002247 for the State Department was overspent by over $857,000 as of August 2000. Our review determined that over $801,000 of the shortfall represented the services of one contractor CISS had procured to perform work for the customer.

The contractor billed GSA $801,733 for services provided the State Department during the period June 1, 1999 through April 28, 2000. Further analysis showed that the State Department, although the contractor was performing work at one of their locations, did not obligate funds to reimburse CISS until April 10, 2000. Additionally, we determined that CISS did not issue a purchase order covering the contractor's invoice for $801,733 until April 14, 2000.

Our conclusion was that a "scramble" occurred to pay this contractor once it became known that the State Department had not provided funding. A rigorous order management system capable of "flagging" problem orders might have warned CISS officials that funding for the contractor's services had not been provided. In this instance, GSA would have been liable for the amounts due the contractor if the State Department had not belatedly obligated the funds.

***Project managers lost track of the orders they were supposed to be managing*.** CISS management attempted to improve these problems by turning account executives and some technicians into project managers who provided "cradle-to-grave" order management. However, they did not develop an effective method of assigning orders. Many times during our review, we presented project managers with an order which they ostensibly managed only to hear that they had no idea the order existed. Upon further investigation, we found that account executives or project managers literally "handed over" orders to new project managers. The new project manager was responsible for updating the assignment code in CISS' database. These records were incorrect more often than not.

CISS employees were not held accountable for overspent orders. Since management had no definitive way of knowing which orders were assigned to the different project managers, they had no way of evaluating each project manager's performance. Consequently, they had no way of holding project managers accountable for overspent orders.

As an example, the Air Force requested maintenance services for 1994 under customer order number 94000089. CISS continued to provide services into 1996 and overspent the order by $87,760. When a CISS employee noticed the accrued charges in 1996 and tried to contact the customer to obtain the additional funds, the customer refused to pay. CISS management acknowledged the overspent amount, but there was no indication in the order file that someone was held responsible for this overspent amount. Despite the unsuccessful attempt to obtain additional funds, CISS continued to accrue these charges as unbilled income.

CISS did not have appropriate financial management policies**.** The Clinger-Cohen Act of 1996 caused some confusion on financial management policy that led CISS employees to believe that customer funds could be used more liberally than before. Many employees believed that excess funds from one order could be transferred to other orders to make up for unfunded amounts. The common practice of transferring funds seemed to encourage project managers to create new orders and provide services to customers without first obtaining an obligating document. The employees thought funds could easily be transferred from prior orders to future orders. See FINDING 3 – TRANSFERRING FUNDS BETWEEN ORDERS for more regarding this practice.

For example, we found a number of orders which had no purchase orders associated with them at all. In one case involving Navy order numbers 99000194 and 00000194, CISS performed about $131,000 worth of services without obtaining funds from the customer. When questioned about the unfunded orders, the project manager indicated that $141,000 from order number 98000194 for the same customer could be transferred to the unfunded orders to cover the charges, as was the common practice within CISS. In this particular case, CISS' practice of transferring funds might have offset the overspent amounts; however, in other cases where there were no excess funds, the assumption that they could transfer funds seems to have encouraged overspending. For example, CISS provided services totaling about $190,000 to the Army under two completely unfunded customer order numbers (97001941 and 97001942). Funding for these orders was supposed to come from order number 96000253; however, CISS overspent this order as well.

In addition to CISS' lack of appropriate financial management policies, CISS did not have appropriate accounting policies for recording these overspent amounts. CISS management did not define a period after which charges were declared uncollectable and written off. Unbilled amounts could stay on the books as income accruals indefinitely while CISS waited to receive more funds from the customer. However, the longer CISS waited to contact the customer regarding additional funds, the less likely it was that those funds would be collected.

For example, even after the project manager unsuccessfully attempted to collect overspent amounts in 1996 for customer order number 94000748, CISS continued to accrue the charges as income four years later.

In conclusion, CISS continued to manage orders based on relatively simple maintenance agreements even after the organization began to provide customers with more complex and costly services involving procurement. The order management system they had relied upon in prior years was not rigorous enough to keep track of multiple types of services and orders. By not instituting controls to encourage more rigorous order management and by not holding employees accountable when orders were overspent, CISS management created an implicit policy to continue services to customers even if funds were not available.

Recommendations

We recommend that the Director, Center for Information Security Services:

1A. Take immediate action to reconcile overspent orders and contact customers to determine if additional funds can be provided. If not, the Center for Information Security Services must write off the overspent amounts, in accordance with proper accounting procedures;

1B. Develop an order management system which allows timely access to accurate financial management data for all parties involved in managing customer orders. Such a system should also include an accurate inventory of project managers' order assignments; and

1C. Institute written policy establishing proper procedures for incurring obligations which ensures that employees do not obligate Government funds before obtaining funding from the requesting agency, in accordance with GSA's financial management policy.

FTS Commissioner's Comments

The Commissioner, Federal Technology Service, concurred with the recommendations.

Finding 2 – Excess Customer Funds

CISS has over 500 customer orders with large unused funding balances, which appear to be excess funds. We conservatively estimate the value of these excess funds at over $7.9 million[2] as of November 2000. Please see Appendix B for a breakout of this amount by year. These excess funds represent orders from as long ago as 1993 with remaining balances as high as $900,000. CISS has no clear policy for dealing with excess funding. As a result, Government funds are not put to best use, and CISS' customers are not given the opportunity to recoup and reprogram funds in a manner that best serves their agency and the taxpayer. Furthermore, CISS accepted substantial funds from customers who may not have had a current *bona fide* need for the services to be provided.

Our analysis of CISS' customer database found that CISS kept customers' excess funds for several years after the original work was apparently completed. For some customer orders, the remaining balances are significant, with some orders showing remaining balances totaling $900,000. The table below shows customer orders, whose last activity was prior to January 1999, with remaining balances of $40,000 or more:

Customer Order No.	Date of Last Service[1]	Balance Remaining[2]
93000224	10/1/94	$ 44,080
94000214	6/1/96	$ 48,762
97001568	1/1/97	$ 44,057
97000837	10/1/97	$ 92,309
97000908	10/1/97	$ 64,031
96000790	11/1/97	$ 50,238
96001672	2/1/98	$ 89,677
96001597	4/1/98	$ 60,457
97000561	4/1/98	$ 50,000
98000123	6/1/98	$ 93,014
98002352	6/1/98	$ 48,739
97001138	8/1/98	$ 96,776
94000577	9/1/98	$ 42,718
97002147	10/1/98	$ 218,368
98001473	11/1/98	$ 914,621

[1]Date of Last Service – Date of the last service charge entered for this order number
[2]The balance remaining represents at least 20 % of the original funds obligated by the customer

[2] Our review of CISS' customer database revealed the existence of 503 customer orders whose last service date was December 1999 or earlier. The combined value of these orders was over $7.9 million. Included among these orders were 199 customer orders, with remaining balances totaling about $1.4 million, whose last service date was December 1997 or earlier.

The customer orders shown have been dormant since as long ago as 1994. We concluded that these orders should be returned to the customer or U.S. Treasury. For further examples of excess funds, refer to Appendix C. During the audit, we provided a complete list of orders with excess funds to the CISS' Director of Business Management.

CISS received about 85 percent of its customer funding on an advance bill basis, i.e., the requesting agency obligated and disbursed funds prior to the start of work. Our limited contact with customers indicated that they believed that funds had been obligated and disbursed, and that the orders were closed. However, our overall review showed that customer personnel often did not know that their orders contained unused funds. More importantly, some customers believed that the unused funds were better off remaining in the IT Fund, since they had lost the ability to recoup and reprogram the funds.

GSA's Policies Focus on *Bona Fide* Need

GSA's policies regarding the acceptance and use of customer funds have as their basis the *bona fide* needs rule as stated in Title 31, U.S. Code, § 1502. Funds may be obligated only to meet a legitimate, or *bona fide*, need arising in the fiscal year for which the appropriation was made. The requesting agency must have a *bona fide* current need for the goods and services to be provided by GSA at the time the agency enters into the interagency agreement. GSA's policy for continued use of customer funds once the original order is concluded is as follows:

> Customer agencies may ask GSA to use these (excess) funds for another task. To validate the request, customer agencies must assure GSA that the same *bona fide* requirement still exists that was present at the time of the original obligation, and that the scope of the work remains unchanged.

GSA's policy regarding the return of excess customer funds is based on a continuation of the same *bona fide* need articulated in the original agreement:

> The agency must continue to have a need for the requirements described in the interagency agreement. If no further need for the requirements exists or the requirements are not within the scope of the interagency agreement, any remaining uncommitted funds must be deobligated from the IT Fund.

In our opinion, if an order has not experienced activity for over a year, we are doubtful that a continuing *bona fide* need exists.

Customers Not Using Funds

Certain customers with current activity held large fund balances while requesting a limited amount of work. For example, on November 2000, Air Force order number 00000738 had almost $540,000 in available funds while the value of its task orders was about $25,000. More significantly, this order was funded primarily by purchase orders with 1997, 1998, and 1999 acceptance dates. CISS personnel explained that this order served as the customer's "checkbook account," with funds continually transferred to other Air Force orders. We suspect that the Air Force did not have an immediate use for the funds on this order, which had an available balance as high as $925,000 during August 2000. Furthermore, funding associated with this order was not being used, even though substantial periods of time had elapsed. The following table shows that substantial amounts belonging to Air Force order number 00000738 were unused, even though the purchase orders were accepted during 1997 and 1998:

EXAMPLES OF PURCHASE ORDERS ASSOCIATED WITH AIR FORCE ORDER 00000738

Purchase Order Number	Amount Allocated	Purchase Order Acceptance Date	Balance at November 2000
NMIPR0097927811	$ 154,147	September 26, 1997	$ 138,470
NMIPR9892008046	$ 63,559	August 28, 1998	$ 63,559
NMIPR0098927524	$ 22,400	September 2, 1998	$ 22,400
NMIPR0098927600	$ 40,000	September 14, 1998	$ 40,000
NMIPR0098927601	$ 34,879	September 15, 1998	$ 34,879

We concluded that customers providing funding under order 00000738 did not have a current *bona fide* need for the services described on their purchase orders.

Excess Funds Not Best Use of Government Funds

We believe that carrying these excess balances, with no apparent need for the funds, does not represent the best use of Government funds. The amounts we concluded represented excess funds, totaling over $7.9 million, represent a considerable amount of lost interest if the principal is dormant in the IT Fund. We concluded that, based on age and inactivity, the *bona fide* needs represented by the orders no longer exist. Therefore, the funds should be deobligated from the IT Fund, in accordance with GSA policy.

Additionally, Government agencies, which depend on yearly appropriations, lose the ability to recoup and reprogram the funds for alternate uses after only a short amount of time. CISS, by not giving proper attention to the excess funds, has lost opportunities to gain business and increase revenue without having to search for new customers. Customer funds that are not needed should be returned to the customer or the U.S. Treasury. As a matter of good business practices, CISS should determine fund balances promptly after completing an order and contact the customer for appropriate disposition.

Causes of Excess Funds

We determined several causes for the large amount of unused and apparently unneeded customer funds. CISS management had no written procedures implementing GSA's policy on excess funds. CISS employees were not knowledgeable about basic statutory authority underpinning GSA's Government-wide information technology programs. Instead, CISS adhered to an ill defined “five-year policy” regarding the availability of customer funds.

CISS management did not have procedures to deal with unused funds in accordance with GSA policy. While CISS personnel continually spoke of their practice of retaining customer funds for up to five years, they could not articulate the basis for this practice. Our review indicated that the practice was the result of a misunderstanding of a 1991 change to OMB Circular A-34, which states that expired accounts have specific fiscal year identity for five years for adjustments to valid obligations after which they are permanently closed. However, this change does not alter the accounts' period of availability for obligation nor the *bona fide* needs requirement. Accordingly, we believe this misinterpretation contributed to the existence of long-standing excess funds balances.

CISS' reliance on an unfounded “five year policy” prompted them to keep excess funds from customer orders instead of deobligating the money in accordance with GSA policy. To illustrate, we examined Navy order number 96001521, accepted April 30, 1996, that had 1996 charges totaling over $1.8 million. This dormant order had a remaining balance of about $62,000 from November 1996 until July 2000. During July 2000, the Navy customer received over $55,000 of electronic equipment purchased by CISS <u>almost four years after the last recorded charge</u>. It is interesting to note that the Navy's last purchase orders for this order, dated May 15, 1996 and July 23, 1996, were to “complete the original request for ADP network appliances.” We doubt that the original *bona fide* need continued to exist in July 2000, since we feel that CISS would not wait almost four years to complete the order. Overall, CISS has 503 customer orders, with no activity since December 1999 or earlier, with remaining balances totaling over $7.9 million. We are skeptical as to whether the original *bona fide* need exists for the majority of these orders. CISS should review these orders to determine their eligibility for either additional work or deobligation from the IT Fund.

CISS adhered to their “five-year policy” despite clear directives from GSA to the contrary. As stated above, GSA's policy indicates that if no further need for the funds exists the uncommitted balance must be deobligated from the IT Fund. This policy indicates that appropriate disposition of customer funds occur at the point of completion and not up to four years after work on the order has ceased. However, CISS policy was to hold the funds for up to five years, and, when the need arose, transfer the funds to the customer's overspent orders (see FINDING 3—TRANSFERRING FUNDS BETWEEN ORDERS).

CISS should institute a policy that gives employees clear guidance on the procedures to follow if a customer's order is completed and excess funds are available. The policy should direct employees to initiate disposition of the customer's funds on a timely basis, ideally after a reconciliation has indicated that all charges and receipts have been accounted for. The policy should indicate that it is appropriate for the project managers to attempt to find uses for the funds as long as the customer can assure CISS that the same *bona fide* need that formed the basis for the original work still exists. If the need no longer exists, the funds should be deobligated to the customer or U.S. Treasury so that the funds can be put to better use.

***CISS employees lacked adequate training**.* CISS employees did not determine whether the original *bona fide* need continued to exist when a project was completed. Therefore, new work was not created or substantial amounts of unneeded customer dollars were not deobligated from the IT Fund. In either case, Government funds were not put to best use.
In addition to the *bona fide* needs rule, CISS employees were not adequately trained regarding the statutory authority for GSA's Government-wide information technology programs. As an example, several CISS employees could not explain statements that appeared on many customer purchase orders to the effect that "these funds are subject to the deobligation requirements of the Economy Act." Our review determined that, under section 5112 of the Clinger-Cohen Act, Office of Management and Budget (OMB) designated GSA as an executive agent for Government-wide acquisitions of information technology. Due to this specific authority, interagency agreements entered into under the authority of OMB's designation are independent of the Economy Act and are not subject to its deobligation requirements.

We concluded that CISS employees were not adequately trained in the basic statutory authority underpinning GSA's Government-wide information technology programs. CISS employees responsible for customer orders worth millions of dollars should know and should be able to articulate to their customers the legal basis for the acceptance and use of customer funds. Our work with GSA's Office of General Counsel indicated that basic training in the statutory authority for GSA's Government-wide information technology programs should include the following:

POTENTIAL TRAINING TOPICS

Clinger-Cohen Act (Title 40 U.S. Code § 1412(e))

Specific authority to support agency purchases
Office of Management and Budget designation

Economy Act (Title 31 U.S. Code § 1535)

Relationship of Clinger-Cohen to Economy Act

Criteria for Recording Valid Obligations

Evidence of a binding agreement
Executed within period of availability

***Bona Fide* Needs Rule** (Title 31 U.S. Code § 1502)

Application to acceptance and retention of customer funds
Transfers of Funds Between Orders

Essential Elements of Interagency Agreements

Basis of GSA's authority
Bona fide need
Identify funding
Signatures

Military Interdepartmental Purchase Requests

Used as a substitute for interagency agreement

Summary

CISS controls over $7.9 million in customer funds that appear to be excess. CISS should identify the funds that can be used for additional work or deobligate them from the IT Fund. CISS needs to ensure that orders accepted represent current *bona fide* needs of the requesting agencies. Written procedures for properly disposing of excess funds and employee training in the proper use and disposition of customer funds will help eliminate large amounts of excess funds in the future.

Recommendations

We recommend that the Director, Center for Information Security Services:

2A. Identify orders that are inactive and have excess funds, and then contact customers to determine whether the *bona fide* need, as stated in the original interagency agreement, still exists. If the need does not exist, the Center for Information Security Services should deobligate the excess funds and return the funds to the customer agency or the U.S. Treasury;

2B. Ensure that orders accepted represent current *bona fide* needs of the customer agencies;

2C. Institute written policy on procedures to be followed if a customer's order is completed and excess funds are available. This policy should state clearly when it is appropriate to apply the customer's funds for additional work and when the funds should be deobligated; and

2D. Develop an employee training program covering the statutory basis for GSA's Government-wide information technology programs and the underlying issues that affect GSA's ability to accept and dispose of customer funds.

FTS Commissioner's Comments

The Commissioner, Federal Technology Service, concurred with the recommendations.

Finding 3 – Transferring Funds Between Orders

CISS regularly transfers funds between orders. Often, CISS made the transfers to offset overspent orders. However, the Center for Information Security Services did not always ensure that transfers of funds were between orders having a similar purpose and scope. As a result, CISS may not be fulfilling its fiduciary responsibility to properly manage customer funds.

GSA may use an agency's funds for any purpose within the scope of the interagency agreement that serves as the obligating document. Excess funds remaining from any order may be used for an additional project, provided that the additional project is within the scope (addresses the same *bona fide* need) of the original interagency agreement. If the additional project is not within the scope of the interagency agreement (does not address the same *bona fide* need), remaining funds from the original order can not be used. The same *bona fide* requirement must still exist that was present at the time of the initial obligation and the scope of the work must remain unchanged.

CISS did not always ensure that transfers of funds were between orders having a similar purpose and scope. In one instance, CISS inappropriately transferred funds to offset an overspent order. Customer order 97001138 was funded by purchase orders reflecting at least two distinct needs of the requesting agency. CISS had not collected two years worth of charges associated with an employee who was detailed to the Interagency Operations Support Staff (IOSS) on a reimbursable basis. CISS, to compensate for the overspending, transferred $111,494 from a purchase order that was specifically for public key infrastructure support services. Our review of pertinent work statements and purchase orders found that the public key infrastructure support services were unrelated to the work performed at IOSS by the detailed employee. Therefore, customer funds were not properly managed in this instance.

In at least one other instance, instead of returning excess funds after the customer's *bona fide* need had been met, CISS used the funds for a new, unrelated order. Marine Corps order number 96001719 had a remaining balance of over $177,000 since about February 1998. The original need, as indicated in the statement of work, was for a system and network integration project at Camp Pendleton in support of a logistics and supply system. In response to our fieldwork, CISS contacted the customer about how to dispose of the $177,000. The Marines indicated that they did not want the funds returned (they could not reprogram a 1996 annual appropriation) but "would work on a plan to spend the remaining 177k." As a result, CISS issued a task order for the remaining balance ($177,459) to provide "information technology and program management support to the **paperless acquisition programs**." Although the Marines indicated that they would provide information as to how the paperless acquisition program supported the original network integration project, the two statements of work were completely dissimilar. Additionally, the paperless acquisition effort supported three Marine Corps bases, not just Camp Pendleton. Our conclusion was that the *bona fide* need in support of the original order at Camp Pendleton had expired in 1998 and remaining funds should not have been transferred in support of a dissimilar requirement.

CISS has **at least 590 inactive customer orders** representing overspent and excess amounts. These orders are candidates for write-offs or deobligation based on age and inactivity. CISS can not transfer excess funds to compensate overspent orders if the transfers are between orders unrelated in purpose and scope (do not address the same *bona fide* need) or if the *bona fide* need pertaining to the order with excess funds does not continue to exist.

CISS must ensure that transfers of funds occur between orders with a similar purpose and scope. The order receiving the transferred funds must address the *bona fide* need articulated in the original interagency agreement. As with the Marine Corp example cited above, we suspect that the original *bona fide* needs pertaining to CISS' inactive orders may not continue to exist. Therefore, inactive orders with excess balances might not be used to compensate overspent orders.

Recommendation

3A. We recommend that the Director, Center for Information Security Services, ensure that transfers of funds between orders occur only between those orders addressing the same purpose and scope, i.e., addressing the *bona fide* need that was present at the time of the initial obligation.

FTS Commissioner's Comments

The Commissioner, Federal Technology Service, concurred with the recommendations.

Management's Preliminary Response

CISS developed an action plan in response to our alert report issued November 29, 2000. In their preliminary action plan, CISS had planned to:

- reconcile customer orders;
- eliminate the advance bill option;
- modify their current billing system;
- emphasize the impact of improper order management;
- develop written guidance on the proper use of customer funds; and
- include a Financial Management Critical Element in all Performance Plans.

Generally, these actions are consistent with our recommendations. Although we did not mention the elimination of the advance bill option, we anticipate this action will assist CISS in proper order management by increasing customers' interest in the financial status of orders and by increasing CISS' communication with customer.

Internal Controls

We assessed the internal controls relevant to the management and use of funds made available to the Center for Information Security Services as reimbursement for services provided customer agencies. We concluded that the controls established were often ineffective and provided little assurance that Government assets were reasonably protected.

We concluded that the control environment, as presently constituted, did not provide reasonable assurance that fraudulent misapplication of customer agency funds would be prevented. CISS regularly assigns control of a customer's account to a single project manager. Our review noted the existence of customer accounts, containing large sums of money, that had been inactive for a considerable amount of time. We also noted that certain customers were not aware of the existence of these unused funds. Given the above, we concluded that a high potential exists for diversion of customer funds.

APPENDIX A

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

Examples of Overspent Customer Orders

Customer Order Number (Note 1)	Last Service Date (Note 2)	Year Created (Note 3)	Amount Obligated (Note 4)	Overspent Amount (Note 5)
94000071	6/1/97	1994	$ -	$ 301,259
98002043	4/1/99	1998	$ 510,000	$ 234,231
96001616	5/1/99	1996	$ 2,040,066	$ 210,069
98002534	6/1/99	1998	$ 76,600	$ 182,502
96001462	10/1/97	1996	$ 393,503	$ 172,356
97002043	2/1/99	1997	$ 3,628,810	$ 149,376
94000748	11/1/95	1994	$ 100,800	$ 113,105
97001941	9/1/97	1997	$ -	$ 110,000
98001138	2/1/98	1998	$ -	$ 100,000
98002234	11/1/99	1998	$ 527,000	$ 99,522
94000089	12/1/95	1994	$ 178,302	$ 87,761
97001942	11/1/97	1997	$ -	$ 81,432
96001389	12/1/96	1996	$ 54,681	$ 66,508
99001242	4/1/99	1999	$ -	$ 66,300
98002283	4/1/99	1998	$ 114,636	$ 57,576
98000490	11/1/99	1998	$ 483,051	$ 50,584
96001699	4/1/98	1996	$ 41,400	$ 40,367
97001550	11/1/99	1997	$ 1,125,453	$ 36,903
97000110	8/1/99	1997	$ 74,367	$ 35,833
98001942	9/1/99	1998	$ -	$ 34,104
93000197	9/1/96	1993	$ 35,681	$ 32,759
94000782	5/1/99	1994	$ 846,932	$ 28,704
93000220	5/1/96	1993	$ 63,501	$ 25,366
97000844	8/1/99	1997	$ 123,403	$ 23,327
97002221	10/1/98	1997	$ 57,100	$ 21,248
96000779	10/1/96	1996	$ 184,310	$ 21,131

Notes:

1. Our review of CISS' customer database revealed a total of 280 customer orders with charges exceeding customer obligations by over $6.4 million. This appendix lists those orders, of the 280 identified, with an overspent amount greater than $20,000 and with a date of last activity prior to January 1, 2000. For a complete discussion of overspent orders, please refer to the report section entitled, FINDING 1 – OVERSPENT CUSTOMER ORDERS DEPLETE THE IT FUND.

Examples of Overspent Customer Orders (Continued)

2. The date shown represents the last time a charge was applied against the order. A charge could represent technicians' time and materials, materials procured by CISS for the order, contracting fees, and other types of related expenses.

3. The year shown represents the Government's fiscal year, October 1 through September 30.

4. The amount obligated represents the amount made available by CISS' customer via a signed purchase order. For orders showing a zero obligated amount, there were no purchase orders or funding documents associated with the order.

5. The overspent amount represents the amount obligated, less billed and unbilled (accrued) amounts.

APPENDIX B

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

Excess Funds That Should Be Considered for Deobligation
As of November 2000

Year of Last Activity (Note 1)	Number of Customer Orders	Total of Excess Funds (Note 2)
1994	5	$ 64,904
1995	30	197,080
1996	49	272,848
1997	115	939,367
1998	145	3,156,560
1999	159	3,278,175
Totals:	503	$ 7,908,934

Notes:

1. For the number of customer orders shown, the year of last activity represents the year in which the last charges against these orders were recorded.

2. For the year of last activity indicated, this amount represents the dollar total of all customer orders with excess funds. Our review of CISS' customer database revealed the existence of 503 customer orders with excess funds whose last service date (date of last charge) was December 1999 or earlier. As this chart shows, there are well over $1 million in customers orders that last saw activity during the period 1994 to 1997. We concluded that, based on age and inactivity, the bona fide need constituting the basis for the orders shown no longer exists. Therefore, serious consideration should be given to deobligating these amounts from the IT Fund, in accordance with GSA policy

APPENDIX C

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

Examples of Excess Customer Funds

Customer Order Number (Note 1)	Last Service Date (Note 2)	Year Created (Note 3)	Amount Obligated (Note 4)	Balance at November 2000 (Note 5)	
98001961	1/1/99	1998	$ 2,241,357	$ 970,352	(Note 6)
98001473	11/1/98	1998	$ 1,386,627	$ 914,621	
98002487	6/1/99	1998	$ 499,100	$ 359,835	
97002147	10/1/98	1997	$ 319,700	$ 218,368	
96001632	10/1/98	1996	$ 1,265,000	$ 184,366	
96001719	2/1/98	1996	$ 1,423,000	$ 177,643	
97002211	4/1/99	1997	$ 1,557,670	$ 119,642	
96001533	8/1/98	1996	$ 2,752,522	$ 117,060	
94000271	4/1/98	1994	$ 561,705	$ 110,061	
98002359	10/1/99	1998	$ 532,983	$ 101,966	
97001138	8/1/98	1997	$ 402,852	$ 96,776	
98000123	6/1/98	1998	$ 101,286	$ 93,014	
97000837	10/1/97	1997	$ 314,943	$ 92,309	
96001672	2/1/98	1996	$ 350,000	$ 89,677	
97002182	6/1/98	1997	$ 948,000	$ 76,438	
97002027	9/1/98	1997	$ 600,000	$ 71,715	
97002111	3/1/99	1997	$ 253,800	$ 70,363	
98000739	10/1/99	1998	$ 2,007,920	$ 67,213	
97000908	10/1/97	1997	$ 297,000	$ 64,031	
98002350	10/1/99	1998	$ 272,000	$ 63,581	
98001608	9/1/99	1998	$ 68,093	$ 61,309	
96001597	4/1/98	1996	$ 100,000	$ 60,457	
97000661	8/1/98	1997	$ 402,850	$ 60,379	
99002572	9/1/99	1999	$ 104,700	$ 59,233	
98001909	1/1/99	1998	$ 353,081	$ 54,081	
99002617	12/1/99	1999	$ 87,550	$ 52,489	
96000790	11/1/97	1996	$ 96,700	$ 50,238	
97000561	4/1/98	1997	$ 197,565	$ 50,000	
94000214	6/1/96	1994	$ 83,489	$ 48,762	
98002352	6/1/98	1998	$ 110,000	$ 48,739	
98001905	7/1/99	1998	$ 234,456	$ 48,495	
98002560	10/1/99	1998	$ 124,440	$ 48,397	

APPENDIX C

Examples of Excess Customer Funds (Continued)

Customer Order Number (Note 1)	Last Service Date (Note 2)	Year Created (Note 3)	Amount Obligated (Note 4)	Balance at November 2000 (Note 5)
96001398	1/1/97	1996	$ 473,755	$ 47,700
99002525	11/1/99	1999	$ 63,018	$ 45,836
93000330	3/1/97	1993	$ 905,585	$ 45,461
98000936	10/1/98	1998	$ 314,415	$ 44,206
93000224	10/1/94	1993	$ 61,677	$ 44,080
97001568	1/1/97	1997	$ 181,291	$ 44,057
99002682	10/1/99	1999	$ 695,000	$ 43,982
94000577	9/1/98	1994	$ 160,000	$ 42,718
97002179	1/1/99	1997	$ 85,109	$ 41,794
99001985	10/1/99	1999	$ 93,766	$ 41,623
98002559	8/1/99	1998	$ 329,400	$ 41,536
99002753	12/1/99	1999	$ 41,138	$ 41,138
96001502	10/1/96	1996	$ 1,267,116	$ 40,000
97001950	10/1/99	1997	$ 17,084,597	$ 38,503
97001988	2/1/98	1997	$ 88,000	$ 36,299
96001528	10/1/98	1996	$ 522,215	$ 35,984
96001756	10/1/99	1996	$ 566,214	$ 35,736
98002382	7/1/98	1998	$ 82,890	$ 35,513
97002120	10/1/99	1997	$ 170,146	$ 35,465
94000777	2/1/95	1994	$ 41,812	$ 35,190
97002163	6/1/98	1997	$ 491,026	$ 35,102
95000117	11/1/97	1995	$ 640,483	$ 34,802
98002367	12/1/99	1998	$ 715,610	$ 34,214
98002537	9/1/99	1998	$ 51,797	$ 31,420
96001713	1/1/97	1996	$ 91,189	$ 30,527
97002137	6/1/99	1997	$ 250,000	$ 29,932
97001382	10/1/97	1997	$ 66,618	$ 29,669
97002281	6/1/98	1997	$ 41,852	$ 29,266
97001268	1/1/98	1997	$ 53,000	$ 28,862
97002065	5/1/99	1997	$ 375,584	$ 28,757
97002236	10/1/98	1997	$ 145,000	$ 28,051
96001549	7/1/97	1996	$ 1,814,552	$ 27,615
99000902	10/1/99	1999	$ 41,954	$ 27,556
98000413	3/1/99	1998	$ 48,716	$ 27,063
97001067	12/1/97	1997	$ 142,923	$ 26,960
96000314	3/1/97	1996	$ 828,553	$ 26,173
96001598	10/1/99	1996	$ 91,437	$ 26,110
96001242	1/1/99	1996	$ 387,600	$ 25,434

Examples of Excess Customer Funds
(Continued)

Notes:

1. Our review of CISS' customer database revealed a total of 503 customer orders whose last service date (see Note 2 below) was December 1999 or earlier. These customer orders represented about $7.9 million in unused funds. This appendix lists those orders, of the 503 identified, with a current balance in excess of $25,000. For a complete discussion of unused funds, please refer to the report section entitled FINDING 2 – EXCESS CUSTOMER FUNDS.

2. The date shown represents the last time a charge was applied against the order. A charge could represent technicians' time and materials, materials procured by CISS for the order, contracting fees, and other types of related expenses.

3. The year shown represents the Government's fiscal year, October 1 through September 30.

4. The amount obligated represents the amount made available by CISS' customer via a signed purchase order.

5. The customer order balance represents the amount obligated, less billed and unbilled (accrued) amounts. The amounts shown are part of a pool of 503 customer orders, with balances totaling over $7.9 million, that have been left unused by CISS since December 1999 or earlier.

6. This customer has a large balance because charges were applied to another customer's order. See FINDING 1 – OVERSPENT CUSTOMER ORDERS DEPLETE THE IT FUND, for a discussion of how a fragmented organization led to mistakes of this magnitude.

FTS COMMISSIONER'S RESPONSE TO THE DRAFT REPORT

GSA

GSA Federal Technology Service

March 23, 2001

MEMORANDUM FOR DAVID K. STONE
REGIONAL INSPECTOR GENERAL FOR AUDITING
GREAT LAKES REGION (JA-5)

FROM: SANDRA N. BATES
COMMISSIONER (T) Sandra N. Bates

SUBJECT: Draft Report: Review of Center for Information Security Services, Federal Technology Service Report Number A001031

Thank you for the opportunity to review and comment on the Center for Information Security Services (CI$S) Draft Audit Report. As was noted during our meeting on February 20, 2001, we are in agreement with the report's findings and recommendations.

A preliminary action plan was developed in response to your management alert report of November 29, 2000. This plan was provided to you by my Memorandum of December 22, 2000. Subsequently, we have determined that a more comprehensive plan of action and milestones is required to properly address the situation.

The FTS Office of the Chief Financial Officer will be assisting the CISS in the development of this plan which will address each of your recommendations. This plan of action and milestones will be produced shortly after issuance of your final report.

Please extend our sincere appreciation to Mr. Frank Moy, Mr. Steve Shute, and Ms. Julie Hyatt for their efforts during the audit. Mr. Shute's and Ms. Hyatt's presentation to CISS management and staff on February 21, 2001, was well received. As a result of their audit work, we believe CISS business practices will be stronger in the future.

If you have any questions, please contact Melanie Lewis on (202) 708-7300 regarding any program issues and Margaret Myers on (703) 306-6120 regarding any financial issues.

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APPENDIX E

REVIEW OF
CENTER FOR INFORMATION SECURITY SERVICES
FEDERAL TECHNOLOGY SERVICE
REPORT NUMBER A001031/T/5/Z01003

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